

Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

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O 212020Z APR 74

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC NIACT IMMEDIATE 6271

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 2454

EXDIS

E.O. 11652: GDS

TAGS: ECON, EG

SUBJECT: BRIEFING OF CONGRESSIONAL LEADERSHIP ON AID TO EGYPT

REF STATE 79579

1. IN RESPONSE REFTEL, WE HAVE DRAWN UP LIST OF "ILLUSTRATIVE" PROJECTS FOLLOWING INTENSIVE DISCUSSIONS WITH EGYPTIAN OFFICIALS DURING PAST WEEK. WE WISH EMPHASIZE, HOWEVER, THAT ACTIVITIES LISTED ARE NOT NECESSARILY CONCRETE, DEFINED PROJECTS AND THAT LIST IS LESS THAN COMPREHENSIVE COVERAGE OF POSSIBLE DEVELOPMENTAL ACTIVITIES.

2. GOE IS CURRENTLY IN STATE OF TRANSITION FROM FOCUS ON NEED TO STRETCH LIMITED RESOURCES TO MEET MILITARY REQUIREMENTS TO NEW STRESS ON ECONOMIC DEVELOPMENT. IN VIEW SEVERE RESOURCE CONSTRAINTS OVER PAST FEW YEARS, INVESTMENTS HAVE BEEN UNDER-TAKEN ON AD HOC BASIS, PRIMARILY IN RESPONSE TO SPECIFIC DONOR INTERESTS RATHER THAN TO PRIORITY NEEDS. AS CONSEQUENCE, ADVANCE DEVELOPMENTAL PLANNING HAS BEEN NEGLECTED AND, DESPITE FRIENDLY, COOPERATIVE ATTITUDE THROUGHOUT, GOE OFFICIALS DO NOT HAVE SHELF OF WELL-DEFINED PROJECT PROPOSALS TO PRESENT.

3. ADDITIONALLY, LIMITED NUMBER OF PROPOSALS ON WHICH PRE-PARATORY WORK HAS BEEN DONE HAVE BEEN CIRCULATED TO OTHER DONORS FOR CONSIDERATION. STATUS OF DONOR RESPONSE CANNOT BE ASCERTAINED WITHOUT FURTHER EXPLORATION WITH ALL CONCERNED. THUS, STATUS OF INDIVIDUAL PROPOSALS INCLUDED IN LIST VARIES WIDELY

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IN TERMS OF BOTH BACK-UP PLANNING AND OTHER DONOR CONSIDERATION.

4. LACK OF FOREIGN EXCHANGE HAS PRECLUDED IMPORT OF ADEQUATE RAW MATERIALS AND REPLACEMENT PARTS TO ALLOW INDUSTRIAL PLANT TO OPERATE AT FULL CAPACITY. IDLE CAPACITY NOW ESTIMATED VARIOUSLY AT UP TO 35 PERCENT OF TOTAL. GOE OFFICIALS UNANIMOUS IN ASCRIBING TOP PRIORITY, AFTER IMPORTATION OF FOODSTUFFS, TO REACTIVATION THIS IDLE CAPACITY. GOE ESTIMATES THAT ADDED IMPORTS OF SOME \$200 MILLION PER YEAR WOULD INCREASE ANNUAL INDUSTRIAL PROJECTION BY ABOUT \$1.5 BILLION, OF WHICH SOME \$500 MILLION WOULD PRODUCE EXPORT EARNINGS/SAVINGS. THIS IS EXCLUSIVE OF ADDED AGRICULTURAL PRODUCTION POSSIBLE WITH MAXIMUM UTILIZATION OF FERTILIZER WHOSE IMPORT HAS ALSO BEEN SEVERALY CURTAILED UNTIL RECENTLY, WHEN GOE MADE ALL-OUT EFFORT TO OBTAIN SUBSTANTIAL QUANTITIES WITH ONLY LIMITED SUCCESS.

5. IN VIEW OF MORE IMMEDIATE ECONOMIC IMPACT OF REACTIVATION IDLE CAPACITY AND UNCERTAIN STATUS OF CAPITAL PROJECTS, WE RECOMMEND MAXIMUM FLEXIBILITY BE MAINTAINED TO SHIFT EVENTUAL FUNDING BETWEEN PROGRAM AND PROJECT CATEGORIES. WHILE WE WILL NEED TO EXAMINE IMPORT PROJECTIONS MORE CAREFULLY UPON OUR RETURN TO WASHINGTON IN LIGHT OF AVAILABILITY FROM US, OUR FIRST IMPRESSION IS THAT EGYPTIAN IMPORTS FROM US CAN BE INCREASED SUBSTANTIALLY AND COULD CONSTITUTE BULK OF US ASSISTANCE EFFORT AT LEAST IN FIRST YEAR.

6. WE HAVE GROUPED PROJECT PROPOSALS INTO TWO CATEGORIES: (A) GENERAL DEVELOPMENT UNDER WHICH EGYPTIAN OFFICIALS ARE IN AGREEMENT THAT PRIORITY ATTENTION MUST BE GIVEN TO PRODUCTION OF FERTILIZER AND CEMENT, AND (B) RECONSTRUCTION OF SUEZ CANAL AREA.

7. GENERAL DEVELOPMENT:

A. EXPANSION OF NATIONAL CEMENT COMPANY PLANT TO INCREASE PRODUCTION BY 850,000 TONS PER ANNUM. ESTIMATED COST: \$27 MILLION.

B. CONSTRUCTION OF ABU KHIR PLANT TO PRODUCE 1.2 MILLION TONS NITROGENOUS FERTILIZER. ESTIMATED COST: \$90 MILLION.

C. CONSTRUCTION OF GRAIN STORAGE SILOS IN SOME 30
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CITES TO REDUCE ANNUAL LOSSES NOW ESTIMATED AT \$12 MILLION. PROJECT IS CONTINUATION OF ACTIVITY FOR WHICH AID HAD EXTENDED LOAN PRIOR TO 1967 AND SUBSEQUENTLY DEOBLIGATED FUNDS. ESTIMATED COST: \$50 MILLION.

D. EXPANSION OF SUGAR REFINERY PRODUCTION BY 100,000 TONS PER YEAR. ESTIMATED COST: \$11 MILLION

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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 2454

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E. CONSTRUCTION TABBIN POWER STATION OF FOUR 80MW UNITS. DESPITE POWER PRODUCED BY ASWAN DAM, GOE ESTIMATED POWER SHORTAGE RANGING FROM 260MW IN 1976 TO 840 MW IN 1980, DUE IN PART TO FLUSHING PERIOD REQUIRED ANNUALLY FOR HIGH DAM. NO COST ESTIMATED AVAILABLE.

F. LARGER AND LONGER RANGE ACTIVITIES WHICH COULD BE DONE IN PHASES INCLUDE:

(1) EXPANSION OF PHOSPHATE MINING CAPACITY BY 10 MILLION TONS ANNUALLY. BENEFICATION WOULD REDUCE OUTPUT TO 7 MILLION TONS, OF WHICH 5 MILLION TONS WOULD CONSTITUTE POTENTIAL EXPORT. ESTIMATED COST: \$300 MILLION.

(2) DRAINAGE SYSTEMS FOR WATER-LOGGED AND SALINE LAND, NOW ESTIMATED TO CONSTITUTE UP TO 60 PERCENT OF IRRIGATED AREA. INDIVIDUAL PROJECTS COULD BE TAILED TO ANY ECONOMICAL LEVEL OF FUNDING. IBRD PROJECT CURRENTLY UNDERWAY HAS ESTIMATED COST OF AROUND \$30 MILLION.

(3) REHABILITATION OF TEXTILE PLANTS WHOSE MACHINERY, LARGELY OF BRITISH ORIGIN, IS MOSTLY OBSOLETE OR NOT ECONOMICALLY REPAIRABLE. IDENTIFIABLE SEGMENTS INCLUDE MAHALLA EL KUBRA (\$95 MILLION), BIEDA DYERS (\$37 MILLION), KAFR EL DAWAR (\$82 MILLION), AND E.S.C.O. (\$82 MILLION).

8. RECONSTRUCTION OF SUEZ CANAL AREA: AT THIS STAGE, PLANNING HAS GONE LITTLE BEYOND (A) IDENTIFICATION OF ACTIVITIES THAT

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MINISTRY OF RECONSTRUCTION WOULD LIKE TO INCLUDE IN MASTER PLAN, AND (B) PROJECTION OF UNDOUBTEDLY EXAGGERATED COSTS. MINISTRY IS NOW NEGOTIATING FOR CONSULTANT SERVICES FROM INTER-NATIONAL CONSORTIUM HEADED BY MCMULLEN ASSOCIATES OF US TO PREPARE MASTER PLAN. GLOBAL ESTIMATES OF OVER \$8 BILLION AND FIVE-YEAR CONSTRUCTION PERIOD ARE STAGGERING TO EVERYONE, INCLUDING THOSE EGYPTIANS TO WHOM SUCH RECONSTRUCTION IS APPEALING IN BOTH POLITICAL AND ECONOMIC TERMS. WHILE WE ARE UNABLE TO DISCOUNT ESTIMATED COSTS WITH ANY ACCURACY AT THIS TIME OR TO PROJECT WHEN ACTUAL WORK CAN BE STARTED, WE BELIEVE THAT OVERALL PLAN WILL CONTAIN ACTIVITIES WHICH WILL BE ATTRACTIVE FOR US FINANCING. WE ARE LISTING MAJOR ACTIVITIES WHICH HAVE BEEN IDENTIFIED FOR FURTHER STUDY AND REFINEMENT WITH CURRENT COST ESTIMATES.

A. RECONSTRUCTION OF THE THREE SUEZ CITIES, INCLUDING HOUSES, STREETS, ATER AND SEWAGE, SCHOOLS, HOSPITALS. ESTIMATED COSTS: \$3.6 BILLION (NO BREAKDOWN AVAILABLE)

B. IMPROVEMENT OF THE THREE PORTS. ESTIMATED COSTS: \$550 MILLION.

C. ENLARGEMENT ISMAILIA (SWEETWATER) CANAL: \$75 MILLION.

D. LAND RECLAMATION: \$675 MILLION

E. ELECTRICAL POWER GENERATION AND DISTRIBUTION: \$700 MILLION

F. RESTORATION OF DESTROYED INDUSTRIAL PLANTS:

- (1) FERTILIZER, \$15 MILLION
- (2) PAPER MILL, \$10 MILLION
- (3) CEMENT PLANT, \$85 MILLION
- (4) LIME PLANT, \$15 MILLION
- (5) REFINERY, \$225 MILLION

G. NEW INDUSTRIAL PLANTS:

- (1) FOOD PROCESSING, \$72 MILLION
- (2) TEXTILES, \$72 MILLION
- (3) PETROCHEMICALS, \$125 MILLION

H. TRANSPORTATION NETWORK:

- (1) ROADS, \$125 MILLION

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(2) RAILWAYS, \$100 MILLION

I. COMMUNICATIONS: \$40 MILLION.

9. AMBASSADOR HAS READ ABOVE AND CONCURS.

10. AID TEAM VISITING SUEZ AREA MONDAY AND PLANS RETURN

WASHINGTON TUESDAY, APRIL 23.

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